Company Update

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Al-Hassan Ghazi Ibrahim Shaker Company

IDEA: A play on Saudi 2030 Vision's mega projects, reaping the benefits of its increased focus on KSA and portfolio strategy.

- **KSA's market dynamics are conducive to growth, with Shaker representing an attractive play on the expanding population, Vision 2030 goals, and mega projects.**
- **We forecast a 5-year EPS CAGR of 16.2% driven by M/S gains on new brand/product additions in home appliances (HA/HE), ii) higher demand on the margin accretive B2B and inverter HVAC sales, iii) cost optimisation initiatives and scale, and iv) deleveraging. Lower working capital has improved the FCF.**
- **We set a DCF-derived TP of SAR 36.5 and remain Buyers after the strong Q1 results.**

Shaker is the exclusive agent for LG air conditioners in Saudi Arabia and imports and distributes other global brands. The company is currently focusing on optimising its portfolio. Shaker has divested its business outside of Saudi Arabia to concentrate more on its core operations within the country. This strategy involves streamlining business operations and strategies and employing resources more effectively. The company's decision is backed by growth drivers in Saudi Arabia, including favourable demographics (40% of the population is under 25 years old) and the anticipated growth opportunities presented by Vision 2030 and participation in mega projects. Management guidance suggests that the HVAC and Home Appliances segments in Saudi Arabia are expected to grow by 20% and 16%, respectively, by FY27e. We anticipate a 10% CAGR in top-line revenue from FY23-28, along with gradual margin expansion and decreased finance costs due to deleveraging. This is projected to result in a 16% CAGR in EPS over the same period. Despite these positive prospects, the current market price of Shaker's stock does not fully reflect the company's growth outlook, with a forward (P/E ratio of 20x and EV/EBITDA ratio of 15x for FY25e.

A play on KSA 2030 Vision's mega projects, with six completed projects across Roshn, Riyad Metro, Qiddiya, Roshn, and NEOM, with two others in progress. We expect Shaker's HVAC segment's revenue to grow at an FY23-28e CAGR of 11.5%, supported by the expansion of HVAC solutions for B2B and B2C consumers, higher demand from mega projects, rising population (FY23-29e CAGR of 2%), and Shaker's agreement to manufacture the full portfolio of ACs and compressor manufacturing in LG Shaker factory which will be sold both locally and exported to other GCC regions. The project is expected to start operations in FY24e. Shaker witnessed a recovery in demand in FY23A, with revenues increasing by 18.1% y/y, supported by solid demand from the B2B segment (50% of Shaker's HVAC revenue).

LG agreement to continue supporting electronics sales in the HA/HE segment. Shaker started distributing the full range of LG's home appliances and electronics (TVs, fridges, washing machines, microwaves, etc.) in Feb 2023, extending its relationship with LG beyond ACs. We expect HE/HA segment revenue to grow at an FY23-28e CAGR of 7.6%, supported by new brand/product additions. That said, Q1 24A revenue declined by c.9.5%, which management attributed to an exceptionally high base in Q1 23A.

We expect EPS to grow at a CAGR of 16.2% (FY 23-28e) on a diversified and more balanced product portfolio alongside cost optimisation. We model for i) 7.6% sales CAGR for HA and 10.2% for HVAC, as well as ii) expanding margins (GPm steadily at c.26%, EBITDAm of 8.2% in FY 28e vs 7.5% FY23A) on an improved product-mix and cost optimisation (>50% of OpEx costs are fixed). Furthermore, we believe the expected rate cuts in FY25e and beyond and deleveraging will lead to an EPS CAGR of 16.2%, positively affecting the normalisation of construction in the Kingdom and thus positively impacting demand, providing further upside catalyst to our numbers. For FY24e, we expect 13% EPS growth, in line with Q1 trend.

Balance sheet optimisation remains a core focus, driving notable improvement in Shaker's FCF profile. Inventory days were down to 106 days in 1Q 24 (vs a peak of 277) and receivable days at 108 (vs a peak of 237), with net debt down 19% from the 2016 peak level. Shaker also divested its 74% stake in the UAE's Energy Management Services and its 60% stake in Jordan's New Vision. Improved performance and working capital management allowed the company to pay down all LT loans in FY22. Overall, Shaker's FCF generation should continue to improve (after being in the red between FY 18-21A) on i) operational growth, ii) improved supply chain/inventory management (CCC to reduce to a normalised level of 147 days), and iii) lower financing bills amid deleveraging (FY23/24e net debt/EBITDA at 3.0-2.5x vs. >7x historically).

We raise our TP to SAR 36.5 and reiterate our Buy rating. The stock is a play on the ongoing progress in mega projects and the growing population, offering double digit EPS growth. We expect the product portfolio expansion and sales channels to drive revenue growth, while the strategic initiatives, better product mix, and the company's deleveraging efforts will support margin expansions. The stock trades at an FY25e P/E and EV/EBITDA of 20x and 15x.

BUY SAR 36.5↑

Consumer discretionary / Saudi Arabia

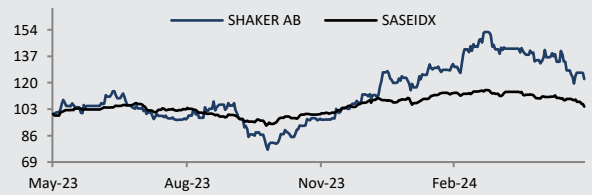
Bloomberg code	SHAKER AB
Market index	SASEIDX
Target Price	36.5
Upside (%)	22

Market data 6/11/2024

Last closing price	29.85
52 Week range	16.1-33.5
Market cap (SAR m)	1,529
Market cap (USD m)	408
Average Daily Traded Value (SAR m)	25.0
Average Daily Traded Value (USD m)	6.8
Free float (%)	72%

Year-end (local m)	2023	2024e	2025e	2026e
Revenues	1,236.2	1,419.8	1,547.4	1,686.7
EBITDA	92.3	92.4	101.1	119.5
Net income	66.9	75.4	83.0	101.0
EPS	1.22	1.36	1.50	1.82
P/E (current price)	24.8	22.0	20.0	16.4
BVPS	12.9	14.3	15.4	16.8
P/B (current price)	2.3	2.1	1.9	1.8
EV/EBITDA (current price)	16.6	16.6	15.2	12.8
Div. yield (%)	-	-	--	1.03
FCF yield (%)	7.7	2.0	6.8	7.1
Net debt/EBITDA (x)	4.2	3.6	3.6	3.2
Net debt/Capital (%)	34.2	27.5	27.7	27.6
Interest cover (x)	1.7	1.9	2.0	2.4
RoAA (%)	4.3	4.6	4.6	5.1
RoAE (%)	9.6	10.0	10.1	11.3
RoIC (%)	7.3	6.7	6.5	7.2

Price Performance



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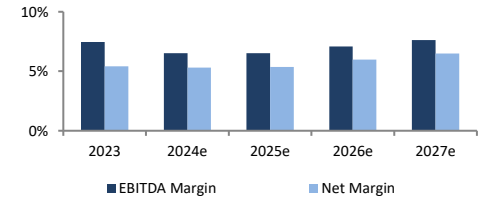
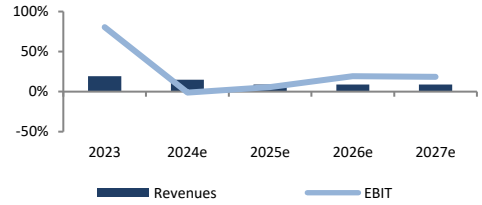
Abacus

Arqaam Capital Fundamental Data

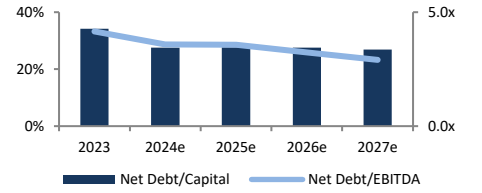
Profitability



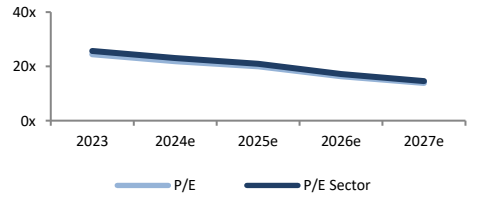
Growth



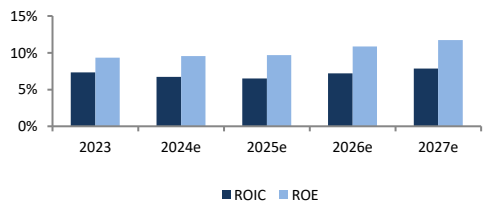
Gearing



Valuation



Return



Al-Hassan Ghazi Ibrahim Shaker Company

Year-end	2022	2023	2024e	2025e	2026e	2027e
Financial summary						
Reported EPS	0.78	1.20	1.36	1.50	1.82	2.15
Diluted EPS	0.78	1.20	1.36	1.50	1.82	2.15
DPS	-	-	-	-	0.29	0.45
BVPS	12.11	12.93	14.26	15.43	16.77	18.35
Weighted average shares	55.50	55.50	55.50	55.50	55.50	55.50
Average market cap	1,656.68	1,656.68	1,656.68	1,656.68	1,656.68	1,656.68

Year-end	2022	2023	2024e	2025e	2026e	2027e
Valuation metrics						
P/E (x) (current price)	38.1	24.8	22.0	20.0	16.4	13.9
P/E (x) (target price)	45.3	29.9	26.9	24.4	20.1	17.0
P/BV (x) (target price)	3.0	2.8	2.6	2.4	2.2	2.0
EV/EBITDA (x)	27.2	16.6	16.6	15.2	12.8	10.9
EV/FCF (x)	26.0	21.3	70.8	19.3	16.9	14.4
EV/Invested capital (x)	1.8	1.8	1.8	1.7	1.5	1.4
Dividend yield (%)	--	--	--	--	1.03	1.56

Year-end	2022	2023	2024e	2025e	2026e	2027e
Growth (%)						
Revenues	3.4	19.2	14.9	9.0	9.0	9.0
EBITDA	(6.4)	64.0	0.1	9.4	18.3	17.1
EBIT	(1.1)	80.5	(1.2)	5.7	19.3	18.4
Net income	2.5	53.7	12.8	10.0	21.7	18.1

Year-end	2022	2023	2024e	2025e	2026e	2027e
Margins (%)						
EBITDA	5.4	7.5	6.5	6.5	7.1	7.6
EBIT	4.7	7.2	6.2	6.0	6.5	7.1
Net	4.2	5.4	5.3	5.4	6.0	6.5

Year-end	2022	2023	2024e	2025e	2026e	2027e
Returns (%)						
RoAA	2.8	4.3	4.6	4.6	5.1	5.6
RoAE	6.6	9.6	10.0	10.1	11.3	12.2
RoIC	3.5	7.3	6.7	6.5	7.2	7.9
FCF yield	7.5	7.7	2.0	6.8	7.1	7.6

Year-end	2022	2023	2024e	2025e	2026e	2027e
Gearing (%)						
Net debt/Capital	38.8	34.2	27.5	27.7	27.6	26.9
Net debt/Equity	70.1	53.4	41.8	42.2	41.5	40.0
Interest cover (x)	2.2	1.7	1.9	2.0	2.4	2.7
Net debt/EBITDA (x)	8.4	4.2	3.6	3.6	3.2	2.9

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Abacus *Arqaam Capital Fundamental Data*

Company profile

Established in 1950, followed by an IPO in 2010, Shaker Group is one of the largest distributors of air conditioners (65% of revenues, MS 17% in total AC market) and home appliances (35% of revenues, MS 11% in total HA market) with a nationwide footprint through a strong network of exclusive sales outlets, service centres, warehousing facilities, training academies, and extensive network of distributors including the modern retailing channel through speciality retailers and hypermarkets. Some brands Shaker distributed include LG, Midea, Maytag, Bissel, Bompani, Ariston, and Indesit. Shaker also has a 49% stake in the LG Manufacturing facility in the KSA. LG owns the remaining 51% of the factory.

Ownership structure

Shareholders	%
LEFANA Holding CO	12.21%
TAWAZUN Holding CO	9.9%
LIMAA Holding Co	5.71%
Others	72.18%

Al-Hassan Ghazi Ibrahim Shaker Company

Year-end	2022	2023	2024e	2025e	2026e	2027e
Income statement (SAR mn)						
Sales revenue	1,037.2	1,236.2	1,419.8	1,547.4	1,686.7	1,838.9
Gross profit	**237.6**	**317.8**	**340.1**	**371.6**	**414.6**	**462.4**
SG&A	(188.7)	(229.4)	(252.8)	(279.3)	(304.5)	(332.0)
EBITDA	**56.3**	**92.3**	**92.4**	**101.1**	**119.5**	**140.1**
Depreciation & Amortisation	(7.3)	(3.9)	(5.0)	(8.8)	(9.4)	(9.6)
EBIT	**49.0**	**88.4**	**87.3**	**92.3**	**110.1**	**130.4**
Net interest income(expense)	(22.2)	(51.5)	(44.9)	(45.5)	(45.6)	(47.9)
Associates/affiliates	23.8	36.1	39.6	43.5	45.7	48.0
Exceptionals/extraordinaries	1.1	1.0	-	-	-	-
Other pre-tax income/(expense)	4.0	2.2	2.5	2.7	3.0	3.3
Profit before tax	**55.7**	**76.2**	**84.6**	**93.1**	**113.3**	**133.8**
Income tax expense	(11.0)	(8.5)	(9.1)	(10.0)	(12.2)	(14.5)
Minorities	(1.3)	(0.9)	-	-	-	-
Other post-tax income/(expense)	-	-	-	-	-	-
Net profit	**43.5**	**66.9**	**75.4**	**83.0**	**101.0**	**119.3**
Arqaam adjustments (including dilution)	-	-	-	-	-	-
Arqaam Net profit	**43.5**	**66.9**	**75.4**	**83.0**	**101.0**	**119.3**

Year-end	2022	2023	2024e	2025e	2026e	2027e
Balance sheet (SAR mn)						
Cash and other liquid assets	487.1	392.8	463.4	502.9	525.0	564.9
Receivables	367.8	444.3	556.5	606.5	661.2	720.8
Tangible fixed assets	178.3	176.6	192.8	207.2	223.1	241.1
Associates/investments	466.2	467.0	506.5	550.1	595.8	643.8
Other assets including goodwill	33.9	28.2	28.2	28.2	28.2	28.2
Total assets	**1,616.0**	**1,508.8**	**1,747.5**	**1,895.0**	**2,033.2**	**2,198.7**
Payables	342.1	340.1	493.9	538.3	577.4	629.5
Interest bearing debt	544.2	402.4	411.8	448.7	472.3	496.5
Other liabilities	57.4	48.6	50.3	51.4	52.7	54.1
Total liabilities	**943.7**	**791.1**	**956.0**	**1,038.5**	**1,102.4**	**1,180.1**
Shareholders equity	672.2	717.7	791.5	856.5	930.8	1,018.7
Minorities	18.0	-	-	-	-	-
Total liabilities & shareholders equity	**1,616.0**	**1,508.8**	**1,747.5**	**1,895.0**	**2,033.2**	**2,198.7**

Year-end	2022	2023	2024e	2025e	2026e	2027e
Cash flow (SAR mn)						
Cashflow from operations	**-**	**-**	**44.7**	**(45.9)**	**(49.2)**	**(54.4)**
Net capex	11.7	(2.2)	(21.3)	(23.2)	(25.3)	(27.6)
Free cash flow	**77.9**	**95.3**	**28.6**	**105.2**	**119.9**	**140.5**
Equity raised/(bought back)	-	-	-	-	-	-
Dividends paid	-	-	-	-	(16.2)	(24.8)
Net inc/(dec) in borrowings	64.1	(141.8)	9.4	37.0	23.5	24.2
Other investing/financing cash flows	-	-	-	-	-	-
Net cash flow	**13.7**	**(46.2)**	**60.7**	**6.0**	**(2.4)**	**2.9**
Change in working capital	(31.5)	(15.1)	31.7	(39.2)	(39.9)	(44.6)

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Investment recommendation

Shaker has established itself as the exclusive agent for LG air conditioners in Saudi Arabia, bringing top-tier cooling solutions to the market and importing and distributing other reputable global brands. This strategic partnership underscores Shaker's commitment to providing cutting-edge technology and innovative products in home appliances and climate control solutions. Shaker is currently channeling its efforts into optimising its extensive portfolio to sharpen its competitive edge, demonstrating a keen focus on alignment and efficiency. In a significant move to streamline its operations and reinforce its core business strategy, Shaker has divested its business ventures located outside of Saudi Arabia. This decisive action allows the company to concentrate more intensively on optimising its operations within the country, ensuring a tighter focus on domestic markets with a clear competitive advantage. Such a strategic reorientation indicates Shaker's intent to consolidate its resources, streamline business strategies, and harness operational efficiencies with an eye toward sustainable growth. This refocused strategy aligns with the burgeoning growth drivers in the Saudi Arabian market. A closer look at the demographics reveals that 40% of the population is under 25, presenting a dynamic and growing consumer base eager for modern, efficient, and reliable home appliance solutions.

Further buoying the company's strategic initiatives are the anticipated growth opportunities spurred by Vision 2030 and the inclusion of mega projects. These factors collectively forge a promising growth trajectory for Shaker in the coming years. Reinforcing this optimistic outlook, management estimates show promising growth projections for the HVAC and Home Appliances segments in Saudi Arabia. Specifically, these sectors are expected to witness growth rates of 20% and 16%, respectively, by FY27e. Based on these projections, we anticipate a robust 10% CAGR in top-line revenue from FY23-28. This projected growth is not limited to revenue figures; Shaker is expected to experience gradual margin expansion, reduced finance costs attributed to strategic deleveraging efforts, and lower borrowing rates. As a result, we estimate a 16% CAGR in EPS over the same period.

The foundation of our assessment hinges on the ambitious Vision's mega projects, compellingly illustrated by six completed projects spanning Roshn, the Riyadh Metro, Qiddiya, and NEOM, with an additional two projects actively underway. These ventures underscore a burgeoning era of infrastructural and developmental progress that distinctly benefits sectors integral to these projects' success, with the HVAC (Heating, Ventilation, and Air Conditioning) segment under Shaker's stewardship poised for accelerated growth, despite some downsizing and phasing in of projects after record awards last year.

Our forecasts anticipate a robust expansion of Shaker's HVAC segment's revenue, projecting an FY23-28e CAGR of 11.5%. This growth trajectory is buoyed by the strategic expansion in HVAC solutions catering to both B2B (Business to Business) and B2C (Business to Consumer) clients, amplified demand steered by mega projects, a demographic uptick with a 2% FY23-29e CAGR, and an instrumental agreement facilitating Shaker's manufacturing of a complete range of air conditioning units and compressors in collaboration with LG in the Shaker factory. This alliance bolsters local sales and extends Shaker's commercial reach across other GCC (Gulf Cooperation Council) regions. The inception of operations under this venture is anticipated in FY24e.

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A palpable resurgence in demand was observed in FY23A, with Shaker's revenue surging by 18.1% y/y, propelled by a robust demand within the B2B segment, which accounts for half of Shaker's HVAC revenue. The continuity of the agreement with LG is imperative, particularly in sustaining sales momentum within the HA/HE (Home Appliances/Home Electronics) segment. February 2023 marked the extension of Shaker's distribution purview to encompass LG's comprehensive range of home appliances and electronics, such as TVs, refrigerators, washing machines, microwaves, etc., extending beyond air conditioners.

The projected growth rate for the HA/HE segment revenue from FY23-28e stands at a CAGR of 7.6%, spurred by introducing new brands and products. Despite this, the revenue experienced a decline of approximately 9.5% in Q1 24A, a downturn attributed by the company's management to an exceptionally high base in Q1 23A.

EPS is expected to grow by a 16.2% CAGR from FY 23-28e, emanating from a more diversified and balanced product portfolio alongside strategic cost optimisation efforts. Projections entail a 7.6% sales CAGR for HA and a 10.2% CAGR for HVAC, coupled with margin expansions (GPm steadily at circa 26%, EBITDAm of 8.2% in FY 28e versus 7.5% in FY23A), fostered by an enriched product mix and cost optimisation, with over 50% of operational expenses being fixed in nature. Anticipated rate cuts from FY25e onwards, combined with deleveraging efforts, are poised to bolster the EPS CAGR to 16.2%, further invigorated by the surging construction activities within the Kingdom, thereby enhancing demand and serving as an additional catalyst to our projections. For FY24e, an EPS growth of 13% is expected, aligning with the Q1 trend.

Considerable emphasis has been placed on optimising the balance sheet, marked by a significant improvement in Shaker's Free Cash Flow profile. Inventory days have been reduced to 106 in 1Q 24 (from a peak of 277), and receivable days are down to 108 (from a peak of 237), with a 19% reduction in net debt from its apex in 2016. Shaker's strategic divestments, including its 74% stake in the UAE's Energy Management Services and its 60% stake in Jordan's New Vision, alongside enhanced performance and working capital management, have enabled the company to extinguish all long-term loans in FY22. With operational growth, improved supply chain/inventory management aiming for a CCC (Cash Conversion Cycle) normalisation at 147 days, and diminished financing costs via deleveraging, Shaker's FCF is positioned for continued improvement, reversing the negative trend observed between FY18-21A.

Elevating our TP to SAR 36.5, we maintain a Buy rating on the stock. Shaker represents an attractive investment opportunity leveraged on the dynamic progress of mega projects and demographic growth, promising double-digit EPS growth. The anticipated expansion of the product portfolio and sales channels is expected to drive revenue growth. Moreover, strategic initiatives, an improved product mix, and the company's deleveraging efforts will underpin margin expansions.

Despite the apparent growth prospects and the solid business strategy underpinning Shaker's operations, the current market price of Shaker's stock seems to lag, not fully encapsulating the company's forward-looking growth potential. The stock trades at a forward Price to Earnings (P/E) ratio of 20x and Enterprise Value to EBITDA (EV/EBITDA) ratio of 15x for FY25e. These metrics might not fully reflect the anticipated growth trajectory and the strategic maneuvers the company is making to cement its position as a leader in the HVAC and home appliances market in Saudi Arabia.

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Valuation summary

- **We set a DCF-derived TP of SAR 36.5 (WACC 11.4%, TGR 2.55%) and maintain a Buy recommendation (with 28% upside).**
- **We forecast a 16.2% 5-yr EPS CAGR supported by i) strengthening the AC segment, (ii) market share gains, specifically in the HA segment (on expanding brands/product portfolio), and iii) MT/LT market growth underpinned by KSA's favorable demographics & upcoming mega projects.**
- **Expanding market presence (via new product additions/portfolio optimisation) is the main value driver. Shaker has a market share of 11% in the home appliances market and a combined market share of 17% in the HVAC market.**
- **The company trades at 20x /20x P/E FY 25/26e, yet the current premium is warranted by growth profile. Our TP implies FY 24/25e P/E of 24.6x/22.4x.**

Exhibit 1: Shaker's DCF Summary

SAR m	FY 24e	FY 25e	FY 26e	FY 27e	FY 28e	FY 29e
Operating Income (EBIT)	86	91	108	128	151	177
Tax Paid	-9	-10	-12	-14	-17	-20
NOPAT	**77**	**80**	**96**	**114**	**134**	**157**
D&A	5	9	9	10	10	11
Adjusted COPAT	**82**	**89**	**105**	**123**	**144**	**167**
Change in Working Capital	(32)	39	40	45	48	52
CAPEX	-21	-23	-25	-28	-30	-33
Free Cash Flow to Firm	**29**	**105**	**120**	**140**	**162**	**187**
Present Value of FCFF	27	89	91	96	100	1,290
PVOP	507					
PVTV	1,187					
Enterprise Value	**1,694**					
Net Debt & Minority	354					
Investments & minority	479					
Equity Value, SAR m	**1,819**					
No of Shares, m	55.5					
12M Target Price, SAR/share	**36.5**					

Source: Arqaam Capital Research, Company Data

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Exhibit 2: Shaker peers' analysis

Company name	Mcap (USD)	P/E (x) 2023	P/E (x) 2024	P/E (x) 2025	EV / EBITDA (x) 2023	EV / EBITDA (x) 2024	EV / EBITDA (x) 2025	P/B (x) 2024	Div. Yield 2023	Div. Yield 2024
Global peers										
ERAJAYA SWASEMBADA TBK PT	406	8.1	6.7	5.6	4.5	6.3	5.3	0.8	3.8%	4.4%
KOJIMA CO LTD	444	21.0	N/A	N/A	6.8	N/A	N/A	N/A	0.0%	0.0%
YAMADA HOLDINGS CO LTD	2,668	12.2	9.9	9.3	8.4	9.3	9.0	0.5	3.3%	3.5%
HIKARI TSUSHIN INC	7,884	8.4	14.1	13.3	14.7	13.4	12.7	1.5	2.3%	2.4%
NOJIMA CORP	1,113	8.5	N/A	N/A	3.4	N/A	N/A	N/A	0.0%	0.0%
MOBILEZONE HOLDING AG-REG	685	11.2	10.9	10.5	8.9	8.3	7.8	16.9	6.6%	7.0%
COM7 PCL	1,111	19.3	13.6	12.3	14.0	9.5	8.6	4.3	4.4%	4.7%
BEST BUY CO INC	18,966	12.6	14.4	13.1	5.8	7.3	6.8	5.6	4.3%	4.5%
MOBILE WORLD INVESTMENT CORP	3,573	372.2	28.5	20.3	16.7	12.3	10.0	3.5	0.7%	1.0%
YAMADA HOLDINGS CO LTD	2,668	12.2	9.9	9.3	8.4	9.3	9.0	0.5	3.3%	3.5%
SUNING.COM CO LTD-A	1,611	N/A	N/A	23.8	25.6	16.4	11.0	N/A	0.0%	0.0%
SHANGHAI M&G STATIONERY IN-A	4,481	22.2	18.0	15.5	12.3	10.8	9.4	3.6	2.4%	2.8%
CHENGDU FUSEN NOBLE-HOUSE -A	1,363	11.0	12.0	11.5	8.5	6.6	6.3	1.6	6.4%	6.4%
MATAS A/S	642	25.9	12.5	10.1	7.5	6.3	5.6	1.2	2.1%	2.7%
GRUPO GIGANTE SAB-SER *	1,616	15.9	N/A	N/A	7.1	N/A	N/A	N/A	0.0%	0.0%
ODP CORP/THE	1,383	10.8	6.6	5.2	4.6	2.9	2.7	1.3	0.0%	0.0%
Average		**38.1**	**13.1**	**12.3**	**49.7**	**9.1**	**8.0**	**3.4**	**2.3%**	**2.5%**
Median		**12.2**	**12.3**	**11.5**	**8.4**	**9.3**	**8.6**	**1.6**	**2.3%**	**2.7%**
MENA peers										
UNITED ELECTRONICS CO	2,026	17.1	16.6	14.9	13.1	12.1	11.3	5.5	4.2%	4.7%
JARIR MARKETING CO	4,230	18.7	16.4	15.3	15.8	13.9	13.0	9.0	5.9%	6.1%
SAUDI CO FOR HARDWARE LLC	346	N/A	N/A	90.0	26.6	17.3	12.5	3.1	0.0%	0.0%
Average		**17.9**	**16.5**	**15.1**	**14.4**	**13.0**	**12.2**	**7.3**	**5.1%**	**5.4%**
Shaker		**23.4x**	**22.0x**	**20x**	**15.8x**	**15.8x**	**14.4x**	**1.03x**	**n/a**	**n/a**

Source: Bloomberg

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Financial Outlook

- **We forecast a 5-year EPS CAGR of 16.2% driven by M/S gains on new brand/product additions in home appliances (HA/HE), higher demand on the margin accretive B2B and inverter HVAC sales, cost optimisation initiatives and scale, and deleveraging.**
- **We project a 7.6% sales CAGR for the Heating Appliances (HA) segment and a more robust 10.2% CAGR for the Heating, Ventilation, and Air Conditioning (HVAC) segment.**
- **We expect the EBITDA Margin to rise to 8.2% by FY28e, up from 7.5% in FY23, due to an improved product mix and rigorous cost measures. GPm should remain at c26%.**
- **Beginning in FY25e, we expect the company to benefit from rate cuts and a deliberate approach to debt reduction, with NPM improving from 5.3% in FY23 to 6.9% in FY28e.**

In the financial projection from FY23 to FY28e, we pencil in an impressive CAGR of 16.2% in EPS. This significant growth is expected to originate from a strategic expansion into a more diverse and well-balanced product portfolio coupled with concerted efforts towards strategic cost optimisation. Specifically, we project a 7.6% sales CAGR for its Heating Appliances (HA) segment and a more robust 10.2% CAGR for its Heating, Ventilation, and Air Conditioning (HVAC) operations. These projections are not merely focused on sales growth but include expected margin expansions.

The forecast also suggests the GPm will maintain a steady plateau at approximately 26%. A more marked improvement is anticipated in the EBITDA Margin, which is expected to rise to 8.2% by the fiscal year 2028, up from 7.5% in fiscal year 2023. This margin enhancement is attributed to an improved product mix and rigorous cost optimisation measures. It is especially noteworthy that over 50% of the company's operational expenses are fixed, presenting substantial leverage for efficiency improvements.

In addition to these operational and sales efficiency measures, the company's financial strategy is crucial in the projected EPS CAGR, reaching 16.2%. Beginning in the fiscal year 2025, we expect the company to benefit from rate cuts and a deliberate approach to debt reduction. These financial maneuvers are expected to bolster the company's EPS growth significantly, contributing to the overall target CAGR.

The anticipated growth trajectory is further underpinned by external macroeconomic and sector-specific drivers, particularly the burgeoning construction activities within the Kingdom. This sectoral boom is poised to elevate demand for the company's offerings, acting as a critical driving force behind the optimistic projections for the company’s growth.

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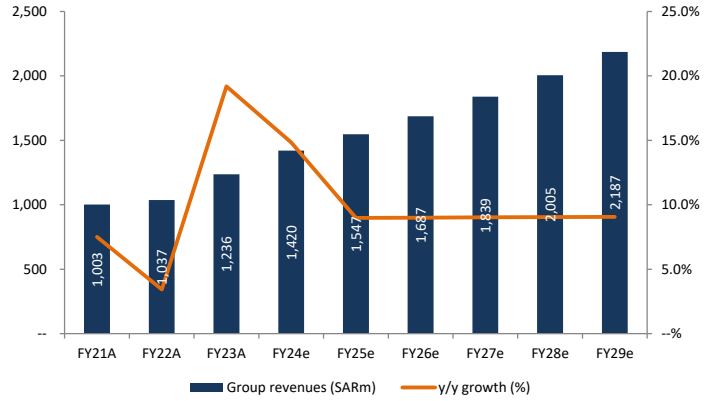
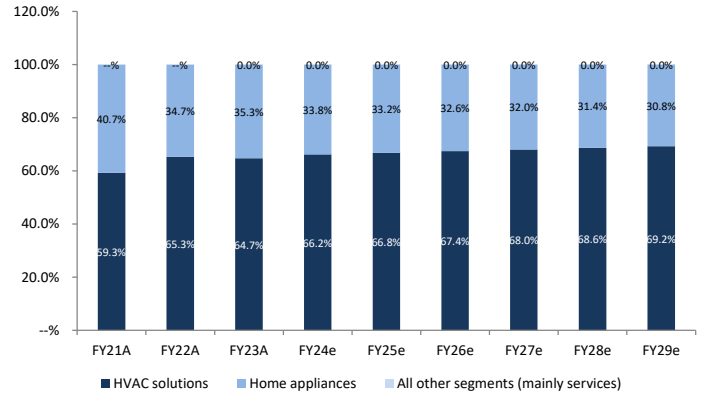
Exhibit 3: We expect Shaker's revenue to grow at a 5-year CAGR of 10%



Source: Company Data, Arqaam Capital Research

Exhibit 4: The HVAC segment has the highest share of revenue at an average of 68%



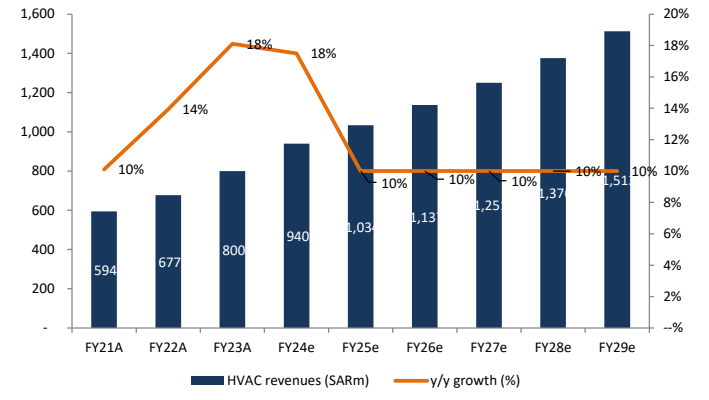
Source: Company Data, Arqaam Capital Research

Shaker's strong distribution channels include a retail and E-commerce presence, a diversified product range, and expansion initiatives to support sales.

In the first quarter of 2024, Shaker opened its 8th retail store and plans to add two more stores by the end of FY24e. The company aims to reach 15 stores by FY25e. Shaker is expanding its online sales and aims to increase its digital sales platforms, with 1 million e-commerce site and app visits in FY23A. As of 1Q 24A, online sales account for 5-10% of the company's total revenue.

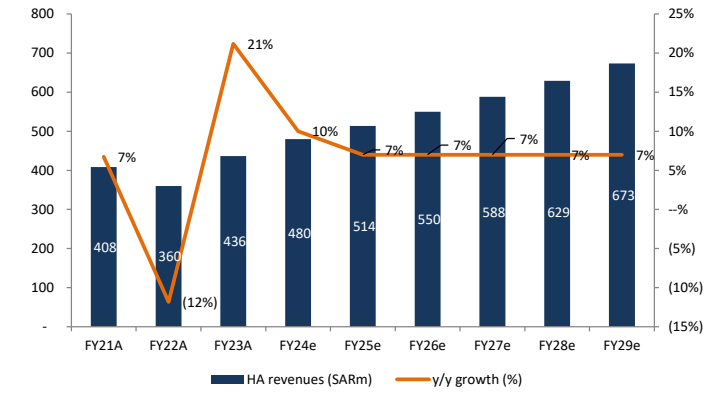
Shaker has strong trade partners, including over 100 retail outlets and 15 clients in Modern Trade channels, 228 retail outlets and 40 clients in Traditional Trade and critical accounts, and substantial fulfilment centre capacity, with 100k Km2 of storage space across six centres spanning four regions.

Exhibit 5: HVAC's segment revenue to grow at a 5-year CAGR of 11.5%, supported by KSA's favourable demographics & upcoming mega projects



Source: Company Data, Arqaam Capital Research

Exhibit 6: The HA/HE segment to grow at a 5-year revenue CAGR of 7.6% driven by new brand additions/portfolio optimisation



Source: Company Data, Arqaam Capital Research

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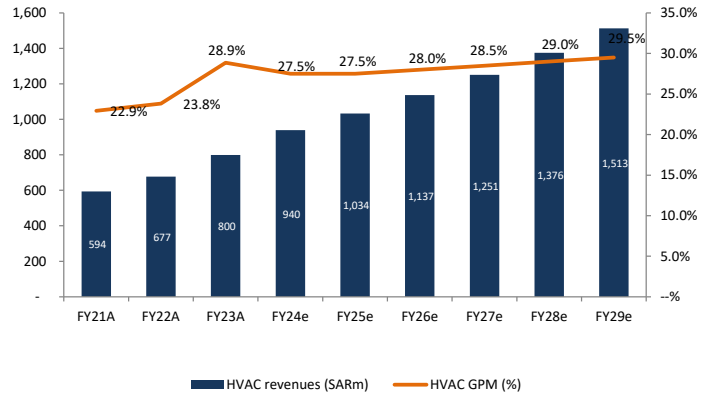
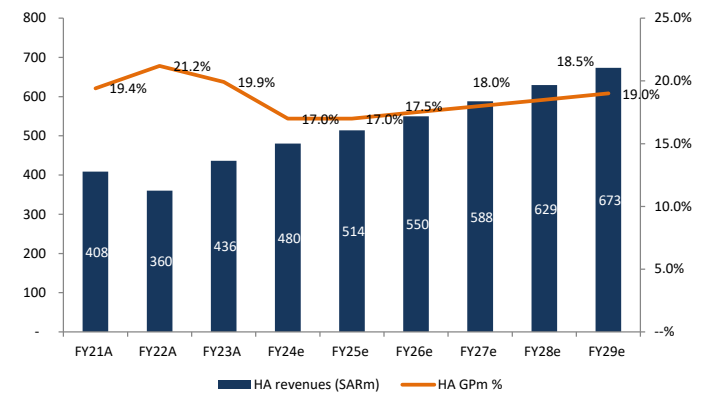
Exhibit 7: HVAC's segment GPm to grow steadily, reaching 29% by FY28e, on our numbers



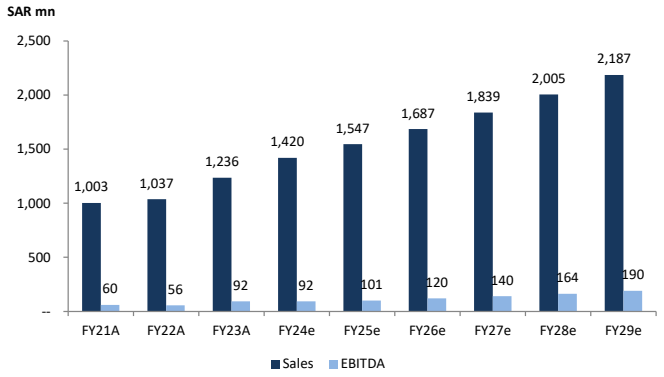
Source: Company Data, Arqaam Capital Research

Exhibit 8: and HA/HE segment GPM to stand almost steady at 19% over our forecast horizon



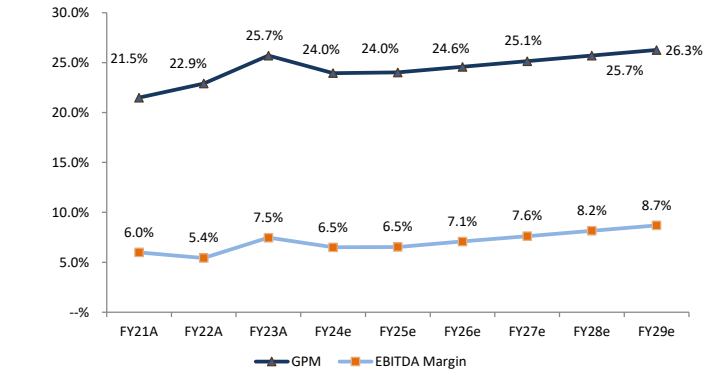
Source: Company Data, Arqaam Capital Research

Exhibit 9: Shaker's EBITDA to grow steadily, at a 5-year CAGR of 12%



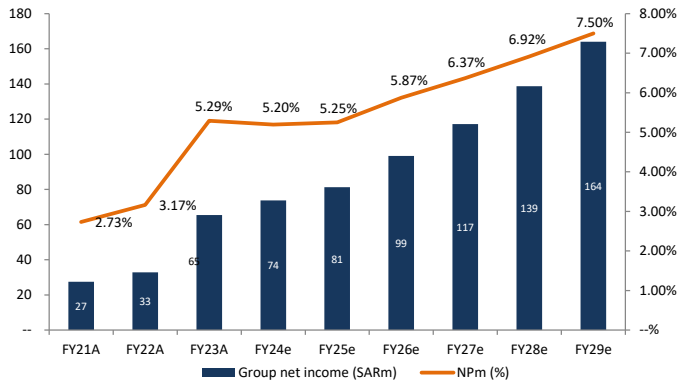
Source: Company Data, Arqaam Capital Research

Exhibit 10: EBITDAm to grow by 1.2ppts to 8.7% over our forecast horizon



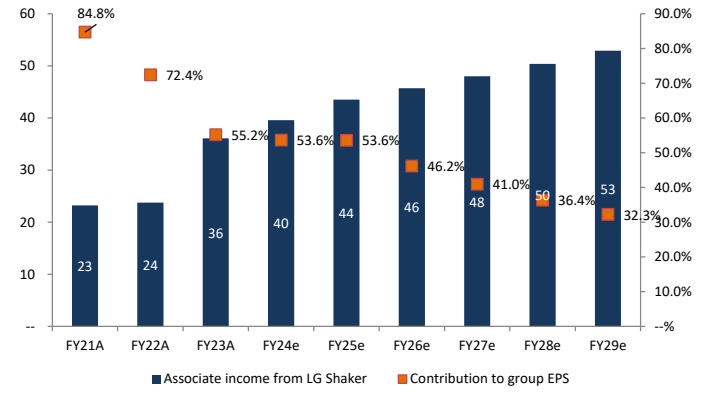
Source: Company Data, Arqaam Capital Research

Exhibit 11: Net profit to grow at a 5-yr CAGR of 16.2% with NPM reaching 7.5% by FY29e, on our numbers



Source: Company Data, Arqaam Capital Research

Exhibit 12: Further supported by growing LG/Shaker JV income and…



Source: Company Data, Arqaam Capital Research

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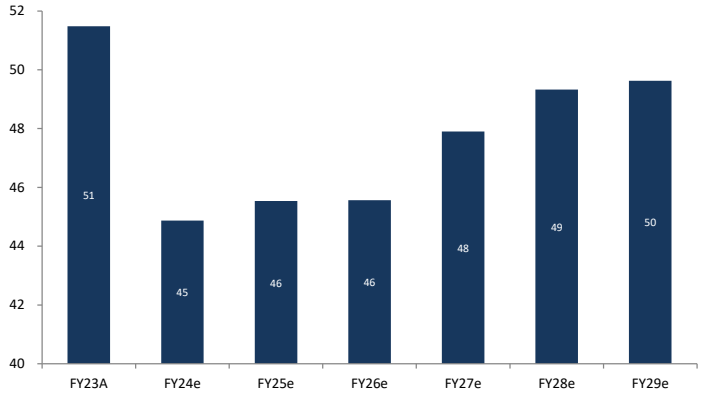
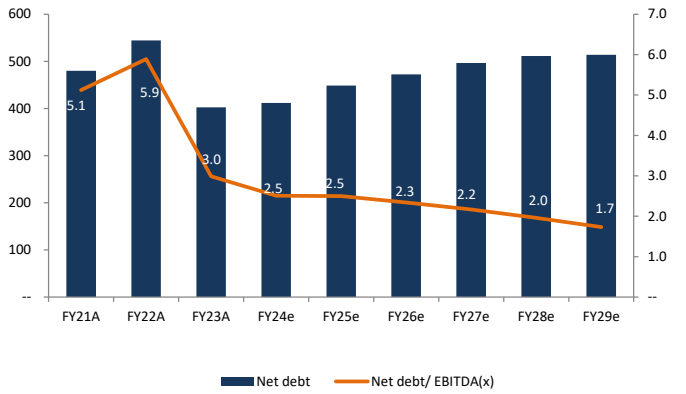
Exhibit 13: ...Lower interest expense as we expect interest rate cuts besides Shaker to continue deleveraging



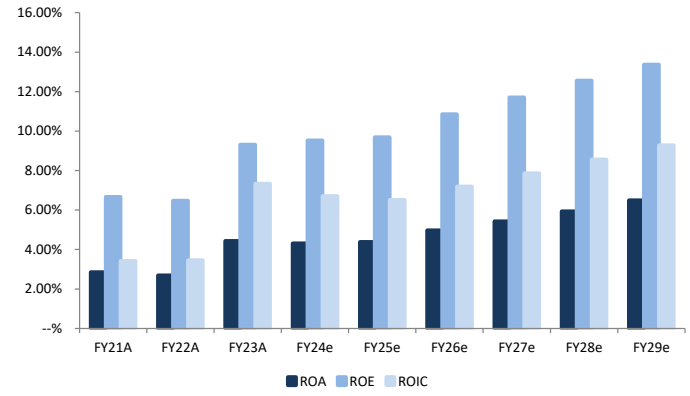
Source: Company Data, Arqaam Capital Research

Exhibit 14: Net Debt to EBITDA to reach 2x by FY 28e, on our numbers



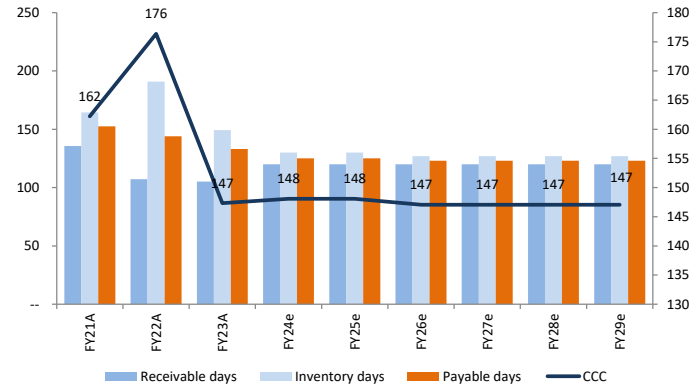
Source: Company Data, Arqaam Capital Research

Exhibit 15: ... Shaker's returns to grow over our forecast horizon



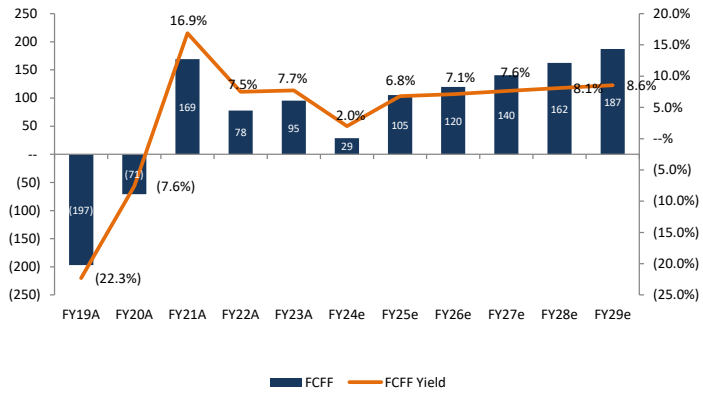
Source: Company Data, Arqaam Capital Research

Exhibit 16: Besides balance sheet optimisation and steadily improved CCC (at 147 days on our numbers)



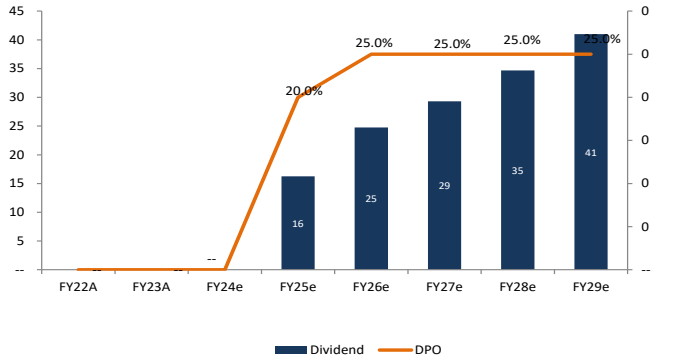
Source: Company Data, Arqaam Capital Research

Exhibit 17: ... all leading to a growing FCFF yield



Source: Company Data, Arqaam Capital Research

Exhibit 18: and higher ability to pay Dividends (we assume Shaker will start paying cash dividends in FY 25e.)



Source: Company Data, Arqaam Capital Research

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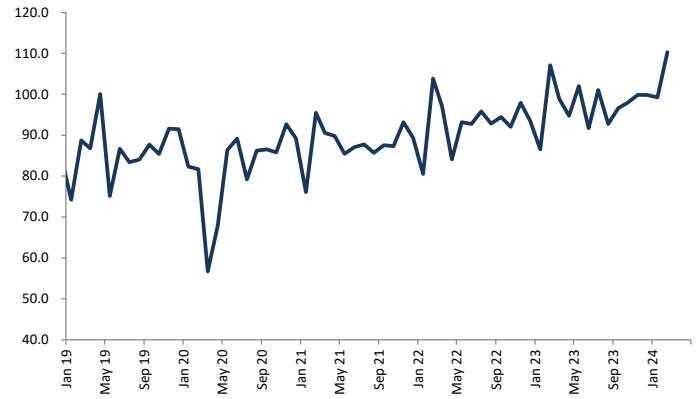
Exhibit 19: Shaker is executing some of the most significant projects in KSA while supporting Vision 2030 mega projects

Project Name	Completion	Scope	Status
Red Sea- Coastal Village	Q3 2021	CCD	Completed
NEOM -Digital Hub	Sep-23	VRF	Completed
NEOM- Labor Camp	Oct-23	RAC	Completed
Boulevard World Egypt Pyramids	Oct-23	VRF	Completed
Boulevard World Forest	Sep-23	VRF	Completed
Crown Jewel WWE Match	Oct-23	CAC	Completed
Roshn Sedra 1	Q1 2024	VRF	In Progress
NEOM- Labor Camp 3 PH 2	Q3 2024	RAC	In Progress

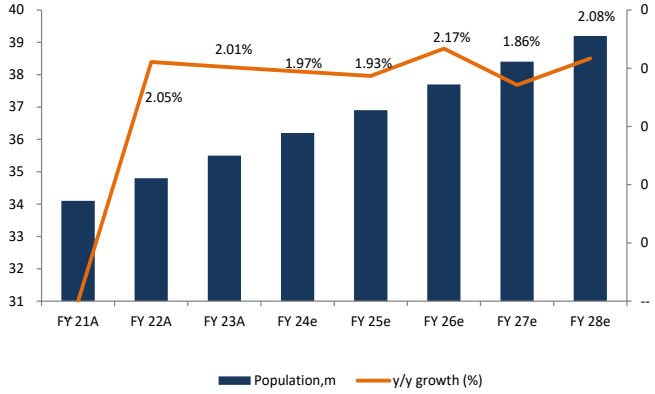
Source: Company Data, Arqaam Capital Research

Exhibit 20: Consumer spending to continue its growth trajectory



Source: Company Data, Arqaam Capital Research

Exhibit 21: KSA Population growth is one of the highest in the GCC region



Source: Company Data, Arqaam Capital Research

Q1 24e review and FY 24e quarterly forecasts.

Q1 24A earnings rose 12% y/y (+707% q/q, + 3% vs. street) on solid revenue growth and lower finance costs, on deleveraging efforts, more than offsetting higher SG&A expenses and the marginal y/y decline from company's share of profit from the LG-Shaker HVAC factory (Tough share of profit from LG HVAC factory witnessed a turned around sequentially – main reason for soaring sequential growth in NP).

Revenue came in at SAR 413m (+19.24 y/y, +3.6% vs. street), driven by higher sales in the HVAC solutions segment (+47% y/y) and balanced growth across the company's brand portfolio combined with steady market share gains, more than offsetting the 9.5% y/y decline in revenues for the Home Appliances segment, on account of normalisation of sales. Sequentially, revenue jumped 59% y/y, with the HVAC solutions segment revenue up 47% q/q and the Home Appliances segment revenue up 86% q/q, supported by sector seasonality and increased sales during the Holy Month of Ramadan.

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Gross profit stood at SAR 98m, up 12% y/y (+30% q/q), in line with higher revenues and a favourable portfolio mix, with its margin at c24%. (Sequential margin contraction of 526bps on strategic efforts to capitalise on Ramadan sales and maintain competitiveness in a dynamic market).

Shaker's operating income grew by c10% y/y to SAR 31m (+45% q/q), less than GP growth. Higher SG&A expenses weighed down the margin, which stood at 7.6% (-67bps y/y and -75bps q/q).

Revenues: SAR 413m (19.2% y/y, 59.2% q/q, 7.8% vs. AC est., and 3.3% vs. BBG)
Gross profit: SAR 98m (12.2% y/y, 30.2% q/q, 0.7% vs. AC est.)
EBIT: SAR 31m (12.5% y/y, 57.3% q/q, 3.2% vs. AC est., and n/a vs. BBG)
Net income: SAR 32m (12.1% y/y, 1141.8% q/q, 8.7% vs. AC est., and 4.0% vs. BBG)

Exhibit 22: Q1 24A results summary

SAR m	Q1 24A	BBG consensus	Δ	Q4 23A	y/y change	Q4 23A	q/q change
Revenues	413	400	*3.3%*	347	*19.2%*	260	*59.2%*
Gross profit	98	n/a	n/a	87	*12.2%*	75	*30.2%*
EBIT	31	n/a	n/a	28	*12.5%*	20	*57.3%*
Net income	32	31	*4.0%*	29	*12.1%*	3	*1141.8%*
Gross margin	23.7%	n/a	n/a	25.1%	(148 bps)	28.9%	(526 bps)
EBIT margin	7.6%	n/a	n/a	8.0%	(46 bps)	7.7%	(9 bps)
Net margin	7.8%	7.8%	5 bps	8.3%	(50 bps)	1.0%	680 bps

Source: Arqaam Capital Research, Company Data

For Q2, we expect revenue growth to accelerate to 24.7% year over year on a balanced growth across the company's brand portfolio combined with steady market share gains specifically in the HVAC segment, also supported by sales growth from the home appliances segment , albeit 7.2% down from the strong Q1. Net profit will increase by almost 41% y/y to SAR 22m.

Exhibit 23: Q2 24e results preview

SAR m	Q2 24E	Q2 23A	y/y change	Q1 24A	q/q change
Revenues	383	307	*24.7%*	413	*-7.2%*
Gross profit	93	74	*24.7%*	98	*-5.3%*
EBIT	27	19	*40.7%*	31	*-12.1%*
Net income	22	16	*40.5%*	32	*-30.8%*
Gross margin	24.1%	24.1%	(1 bps)	23.7%	48 bps
EBIT margin	7.0%	6.2%	80 bps	7.6%	(39 bps)
Net margin	5.8%	5.2%	66 bps	7.8%	(198 bps)

Source: Arqaam Capital Research, Company Data

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Exhibit 24: FY24e full year and quarterly forecasts

SAR m	Q2 24e	Q3 24e	Q4 24e	FY24e	y/y change
Revenues	383	355	268	1,420	*14.9%*
Gross profit	93	85	64	340	*7.0%*
EBIT	27	18	10	86	*-1.6%*
Net income	22	14	5	74	*12.7%*
Gross margin	24.1%	24.1%	24.0%	24.0%	19 bps
EBIT margin	7.0%	5.1%	3.7%	6.0%	97 bps
Net margin	5.8%	3.9%	2.0%	5.2%	63 bps

Source: Arqaam Capital Research, Company Data

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Background

A leading provider of HVAC solutions for businesses and megaprojects in KSA.

Shaker has a combined market share of 17% in the HVAC segment and has the largest market share in VRF and concealed units in KSA. LG is the only HVAC brand in KSA with a full lineup of energy-saving inverter technology (offering 35% energy savings vs traditional units). Shaker HVAC's product range (50% B2B and 50% B2C) includes consumer ACs, commercial ACs, & applied ACs and services in different segments, including residential, hospitality, commercial, and transportation.

Shaker currently occupies a significant position in the Saudi HVAC market, with a market share totaling 17%. This distinction sets Shaker apart as the preeminent leader in Variable Refrigerant Flow (VRF) product categories and concealed units across Saudi Arabia. Meanwhile, LG stands out as the unique HVAC brand within the region, offering an exhaustive lineup of products equipped with advanced energy-saving inverter technology. This technology is notable for its efficiency, promising impressive energy savings of up to 35% compared to traditional HVAC units' consumption rates.

Shaker's range of HVAC products is evenly split between the business-to-business (B2B) and business-to-consumer (B2C) sectors. This diverse product assortment encompasses consumer and commercial air conditioners and applied air conditioning solutions. In addition to these products, Shaker provides various services tailored to meet the needs of several distinct sectors, including residential environments, the hospitality industry, commercial spaces, and the transportation sector.

By maintaining a broad and versatile product portfolio, Shaker successfully addresses the needs of a wide array of customers. From household users seeking comfort and efficiency in their air conditioning needs to large-scale commercial projects demanding sophisticated HVAC solutions, Shaker's offerings play a crucial role. Furthermore, the company's emphasis on integrating energy-efficient technologies underscores its commitment to sustainability and environmental responsibility. This approach benefits end users by reducing energy bills. It contributes to the broader effort of minimising the ecological impact of the planet's heating, ventilation, and air conditioning systems.

LG agreement to continue supporting sales in the HA/HE segment; Shaker has a market share of 11% in the electronics segment

Shaker began distributing LG's full range of home appliances and electronics, including TVs, fridges, washing machines, and microwaves, in February 2023. This extended their existing partnership with LG beyond just air conditioners. The segment's revenue in the home electronics and home appliances category is anticipated to grow at a compounded annual growth rate (CAGR) of 7.6% from FY23 to FY28, driven by adding new brands and products. However, it's worth noting that the revenue for the first quarter of 2024 declined by approximately 9.5%, which management attributed to a high revenue base in the first quarter of 2023 due to the LG agreement. Additionally, the company has signed a memorandum of understanding (MoU) with Bompani to establish a factory for cooking ranges in Saudi Arabia (KSA), which is expected to expand its revenue further and enhance earnings resilience.

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ESG: A Strong Board of Directors and Management Team

Exhibit 25: Shaker's Board of directors

Name	Position	Experience
Abdulelah Abdullah Abunayyan	Chairman	Extensive experience on board members of major companies. Strategic business development expert, and in sales and marketing. Excellent Leadership in communications and interpersonal skills, and advanced management and strategic planning. Held several leadership and executive positions in several commercial and industrial public and private companies.
Musaab Suleiman Al Muhaidib	Vice-Chairman	Monitoring and attracting the best international recreational and sports activities and events that are consistent with the aspiration of the Kingdom`s vision and the Quality of Life program. Held several leadership and executive positions in several commercial and industrial public and private companies. Extensive experience on board members of major companies. The Ability to spot business opportunities and invest in it. Excellent Leadership in communications and interpersonal skills, and advanced management and strategic planning. Expert in Business development, Strategic Visions and Capital development, and in sales and marketing
Azzam Saud Al-Mudaihim	Board Member	Manufacturing Engineer at Advanced Electronics Company Limited 1996-1998. Regional Sales Manager – Central Region at Al- Muhadib Food Co. 1998-2001. Procurement Manager and Warehouse Manager at Masdar Co. 2001-2007. General Manager at Masdar Co. 2007-2010 General Manager at Madsar Co. 2011-2017. CEO of Al-Hassan Ghazi Ibrahim Shaker from November 2017 – 2020. CEO of Abunayyan Holding from December 2020 – Present Day.
AbdulRaouf Walid Albitar	Board Member	Member of the Board of Directors in Al-Hassan Ghazi Ibrahim Shaker since 2009. 30 years of experience in the field of industrial companies.
Eid Bin Faleh Al Shammri	Board Member	Full-Time Consultant: 2022-Present-Time. Advisor in Industry and Mineral Resources Sector: 2021-2022. CEO of Ithraa Capital: 2008-2020. General Manager Deputy at El-Seif Investments Limited: 2007-2008. CEO of Eid Al-Shammry Advanced Financial and Management Consultancy: 2005-2007. CEO of Inmaia: 2001-2005. · Merging and Acquisition Manager and direct investment at SNB Bank: 1996-2001. First Manager for department of cooperation funding and financial consultancy at Saudi American Bank (SAMBA):1993-1996. Auditor at PwC – Ohio – United States of America: 1990-1992. Chief Auditor at Saudi Industrial Development Fund: 1989-1990. Trainee at Saudi International Bank – London – United Kingdom 1987-1988. Member of the Board of Directors at Aldress Petroleum and Transport Services Company for 15 Years. Chairman of the Audit Committee at Aldress Petroleum and Transport Service Company for 15 Years. Member of the Governance and Nominating Committee at Aldress Petroleum and Transport Service Company for 15 Years.

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Musaed Abdullah AlQasim	Board Member	Managing Director at Tarabot Investments and Development: 2014-Present-Day. Computer Programmer at Saudi Telecom Company (STC) Riyadh: 1988-1992. Computer Programmer and System Analyst at Royal Saudi Air Force: 1992-1993. 42 Managing Advisor at Al-Rashed Consultants and Legal Accountant: 1993-1995. CEO of Arabian Water and Energy Development (ACWA): 2007-2014. Member of the Board of Directors at Arabian Japanese Membrane Company: 2008-2014. Member of the Board of Directors at Wilsons Industries Middle East for Pipe Fabrication: 2008 – 2014 Member of the Board of Directors at Saudi Tabreed Company: 2008-2021. Member of the Board of Directors at ACWA Power: 2008-2021. Chairman the Board of Directors at Saudi Tabreed For Operation and Maintenance Khobar: 2009-2021. Chairman of the Saudi Tabreed Riyadh Saudi Arabia: 2015-2021 Owner of Al-Ramz Real estate in Riyadh: 2017- 2019. Chairman of Saudi Tabreed of Daharan in Khobar: 2019-2021 Chairman of Communications Network Coverage Company: 2020-2021
Hossam Ali Husain Shobokshi	Board Member	Investments Manager at Shobokshi Trading and Development: 1996-2002. General Manager at Standard Chartered Bank Middle East – Dubai: 2007-2009. Vice-Chairman of the Board of Directors and CEO of Saray Capital: 2016- 2021. Vice-Chairman of the Board of Directors and CEO of Saray Capital: 2021 – Present – Day

Source: Company Data

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Exhibit 26: Shaker's Management Team

Name	Position	Experience
Mohammed Abunayyan	Chief executive officer (CEO)	• Appointed CEO in 2020 • Strategic Planning from London Business School and INSEAD Business School • Board member at Abunayyan Holding
Mazen ElGhafeer	Chief financial officer (CFO)	• Joined in 2022 • EMBA from Oxford University • 20+ years of experience in financial planning & analysis, reporting & M&A
Firas AlSayegh	Vice President – Strategy & Shared Services	• Joined in 2018 • MBA from University of California Riverside (UCR) • 10+ years of experience in strategy & turnarounds within automotive, manufacturing, FMCG and consumer retail/wholesales industries
Dr. Sultan Al Aydan	Vice President – Legal & Compliance	• Joined in 2023 • PhD in Law | Masters in Corporate Finance Law from West Minster London • 12+ years of experience in Law practice and governance
Hazem Samannoudy	Vice President – Supply Chain	• Joined in 2020 • Master's degree in International Transportation & Logistics Management from Arab Academy of Science Technology & Marine Transportation • 15+ years of end-to-end experience in supply chain
Byeongwoo Park	Vice President – Marketing	• Joined in 2018 • MBA Degree from Helsinki School of Economics • 25+ years' experience in electronics, tele-communication & HVAC B2B business in LG Electronics Inc
Mohammed Eldada	Vice President – B2C Sales	• Joined in 2018 • Executive MBA from Lebanese American University • 30+ experience in sales & marketing in consumer electronics & home appliances
Eunjun Jung	Vice President – B2B Sales	• Joined in 2021 • Bachelor of Electronics from Korea University • 35+ years of experience in sales & business management of LG products globally
Abdullatheef Meethal	Vice President – Aftersales	• Joined in 2023 • Diploma in Electronics Engineering from India • 30+ years of experience in customer and product service across Saudi Arabia, Kuwait and India

Source: Company Data

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